GENESCO

The Apparel Company

ANNUAL REPORT 1971

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The Business of GENESCO is People... and the Apparel they Wear

The Business of GENESCO is People... and the *Apparel* they *Wear*

GENESCO

Corporate Offices

111 Seventh Avenue, North
Nashville, Tennessee 37202
615 747-7691

730 Fifth Avenue
New York, New York 10019
212 582-9090

Cable Address

GENCORP

Telex Numbers

Nashville, Tennessee 55 4423

New York, New York 12 6814

Zurich, Switzerland 845 52503

Florence, Italy 843 57318

Transfer Agents

Common Stock and Preferred Stock

Morgan Guaranty Trust Company
New York, New York 10004

First American National Bank
Nashville, Tennessee 37202

Registrars

Common Stock and Preferred Stock

Chemical Bank
New York, New York 10004

Third National Bank
Nashville, Tennessee 37202

New York Stock Exchange Symbol

GCO

Annual Meeting of Stockholders

First Monday in December

FINANCIAL SUMMARY

Year ended 31 July	1971	1970 Restated
Sales	**$1,306,844,000**	$1,278,134,000
Earnings before extraordinary loss	**$25,708,000**	$25,298,000
Primary earnings per common and common equivalent share—before extraordinary loss	**$1.83**	$1.86
Net earnings per common and common equivalent share	**$1.02**	$1.66
Average number of common and common equivalent shares outstanding	**12,136,000**	11,719,000

Annual Report

1971

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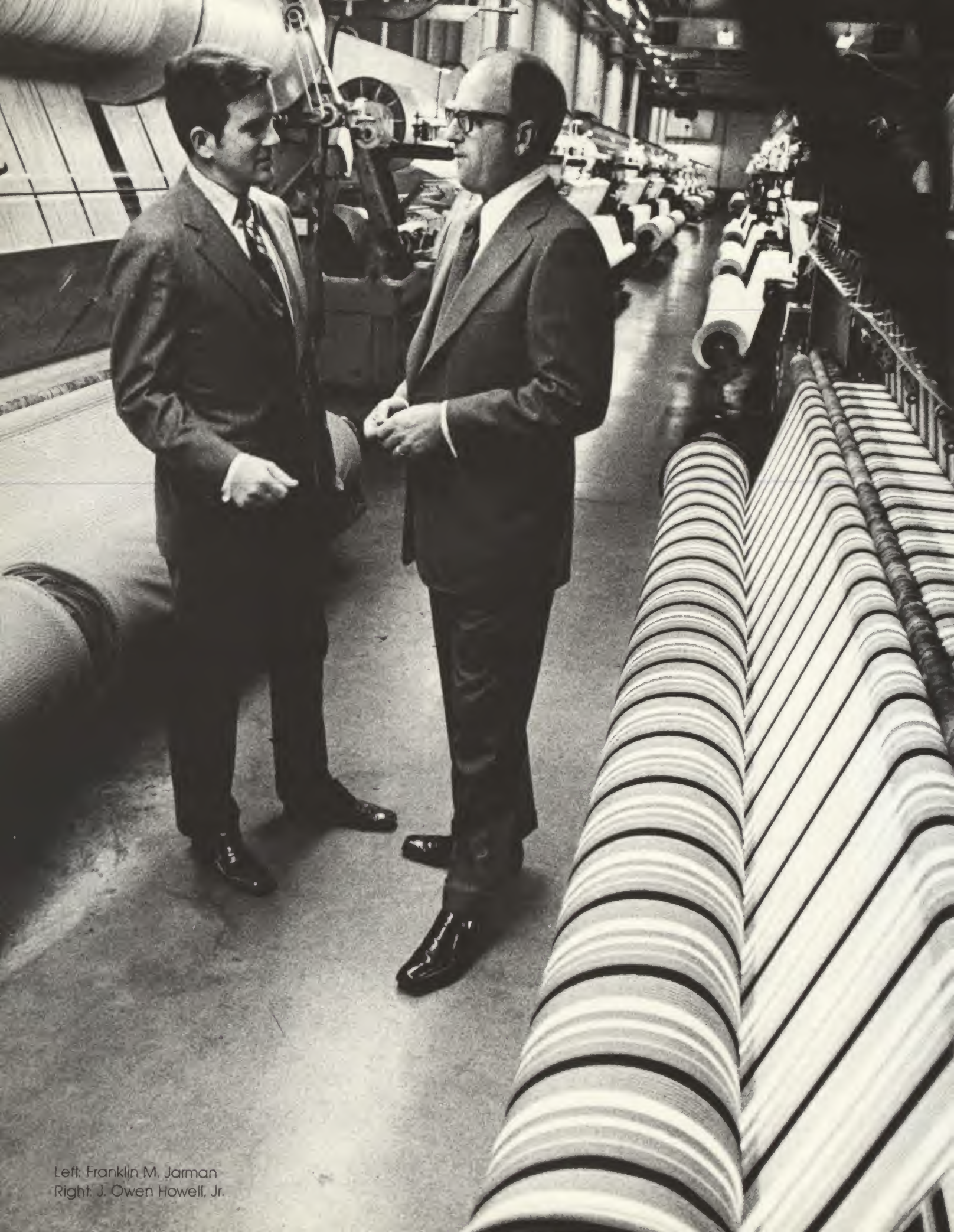


Left: Franklin M. Jarman
Right: J. Owen Howell, Jr.

To Our Stockholders:

In a difficult year for the nation's economy, GENESCO's results were not acceptable in respect to our own standards of performance. For our 47th fiscal year ending 31 July 1971, net sales were $1,306,844,000, an increase of 2% over the previous year. Earnings before extraordinary loss on the disposition of discontinued operations were $25,708,000, up 2%. Earnings per share before the extraordinary loss were $1.83, down 2%. After allowing for the extraordinary loss, our net earnings were $15,859,000, and net primary earnings per share were $1.02, off 31% and 39% respectively. While our total sales and earnings increased during the last three quarters over the previous year, this increase was not enough to offset the poor results of our first quarter ending 31 October 1970.

"For our 47th fiscal year... net sales were $1,306,844,000 ...2% over the previous year."

There are several reasons for these results. Last year at this time, based on the best economic forecasts available, a substantial upturn in the nation's economy was predicted. Needless to say, it did not occur. What did occur can only be termed a recession uniquely combined with rising inflation. In the apparel industry, although prices rose, costs rose even faster. It is always difficult to establish selling prices at a point which will produce the best return on capital. If prices are set too high, volume falls off, which in turn reduces profits. This is particularly true when plants are tooled up to produce at a certain expected volume. On the other hand, prices must be high enough to cover increased costs. In the economy of the past year, this was an especially difficult problem.

"What did occur can only be termed a recession uniquely combined with rising inflation."

Other problems specifically affected the apparel industry and GENESCO. In fiscal 1971, some 750 million pairs of non-rubber footwear were distributed in the U.S. Approximately 265 million pairs or 35% of these were imports. This represents a 40% gain over fiscal 1970. It is too soon to tell if President Nixon's 10% surcharge and the devaluation of the dollar will significantly improve this situation. Men's suit cuttings this year dropped 25% from fiscal 1970, to under 15 million suits. Part of this was due to imports, which currently equal 22% of the market. Also, men are reluctant to make a major outlay for a suit when they are concerned about the economy and their own jobs. The women's clothing business was adversely affected by the unpopularity of the midi length, the continuing increase in imported clothing, and the expensive switch from woven goods to polyester doubleknits. Cutting figures for the fiscal year were below 500 million units, a 13% drop.

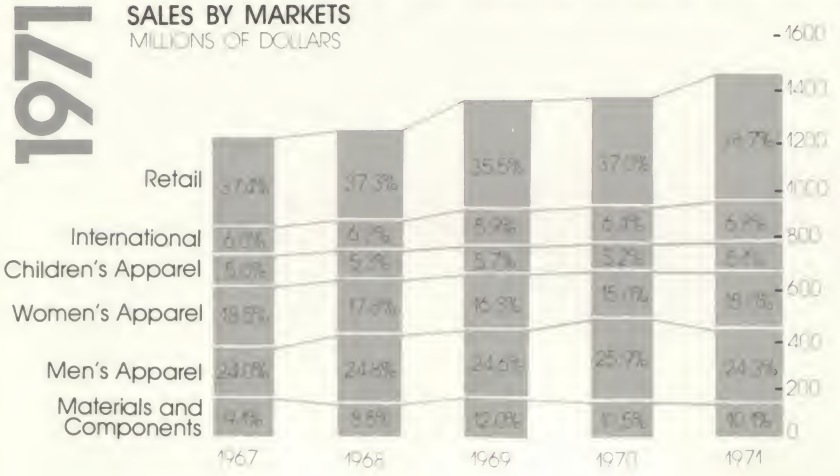
"In fiscal 1971, some 750 million pairs of non-rubber footwear were distributed in the U.S. Approximately 265 millions pairs or 35% of these were imports."

We have taken several steps to improve our results. In fiscal 1971, we reduced our central administrative expenses by $2 million, or more than 10%. For fiscal 1972, these expenses are budgeted to be below 1970 levels. We reduced our executive management census by 8%, almost entirely through attrition and retirement. Finally, we discontinued several unprofitable operations. During our first fiscal quarter, we closed several footwear manufacturing operations. Subsequently, some apparel component facilities were closed as well as a number of wholesale apparel divisions. So as not to jeopardize the final and most favorable disposition of all discontinued operations, some of them are yet

"In fiscal 1971, we reduced our central administrative expenses by $2 million, or more than 10%."

1971

SALES BY MARKETS
MILLIONS OF DOLLARS



to be announced. As noted in the Financial Review section of this report, the extraordinary loss consists of not only the actual losses incurred during the year, but also a reserve for additional losses estimated to be incurred in disposing of the operations which we have discontinued.

As has been reported in previous Annual Reports, the Internal Revenue Service has been examining our tax returns for fiscal 1964 through 1966. In a special letter to stockholders last July, we reported receipt of the IRS proposed adjustments based on their agents' audits of our returns for these years. The issues raised were numerous and complex, and the IRS stated it was not possible to make an exact determination of the net amount of the deficiencies to be claimed. We intend to contest these proposed adjustments. Based on the opinions of our tax counsel, we continue to believe that any tax deficiencies which may ultimately be determined will not materially affect the financial position of our company.

Growth Although our overall results did not meet planned goals, GENESCO did generate considerable internal growth during the year. In March we held the first public demonstration of the Lasermatic™ (described in detail in the Research and Development section), a major breakthrough by our people in the field of apparel manufacturing.

"In March we held the first public demonstration of the Lasermatic,™ a major breakthrough by our people in the field of apparel manufacturing."

Many GENESCO divisions also took steps to generate new business. For example, MALE Slacks established a new line, FE MALE, to cater to feminine customers. A new division, Spyder Mark, was created to sell fashionable slacks tailored for the mature man. Baron's began a series of auxiliary stores called The Other Half adjacent to the established Baron's men's wear locations and catering to a younger market. I. Miller started a new venture known as the Miller Eye, offering fashion accessories in addition to moderate-priced shoes for the fashion-conscious young woman. And in response to the tremendous demand for vulcanized and injection-molded footwear, GENESCO has recently opened a new plant in Carthage, Tennessee. We made and sold over 70% more pairs of this type of footwear during the fiscal year.

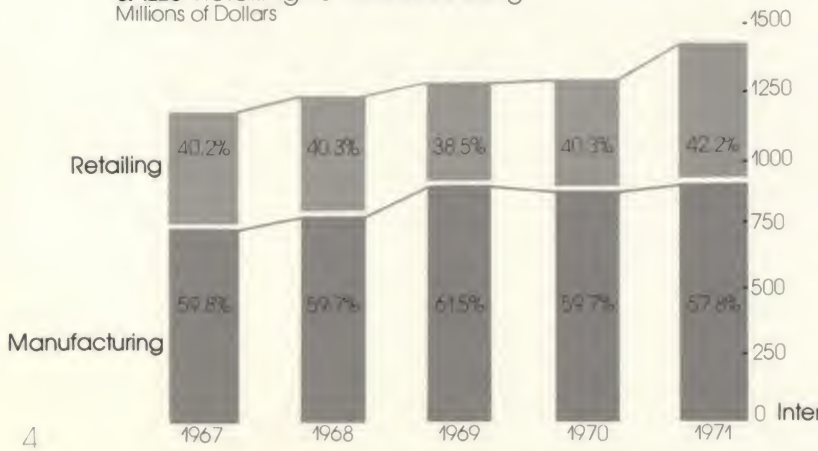
In other internal growth, we completed construction on a men's suit plant in Mt. Union, Pennsylvania, a women's dress plant in Woonsocket, Rhode Island, a plant making men's jeans in Alamogordo, New Mexico, and major additions to a footwear raw materials terminal and a chemical products plant, both in Nashville, Tennessee. In our retail divisions, we opened a number of new stores and closed some old or unprofitable ones. As of 31 July, we had a total of 2,452 stores and leased departments. Our total capital expenditures amounted to approximately $30 million.

"...we had a total of 2,452 stores and leased departments. Our total capital expenditures amounted to approximately $30 million."

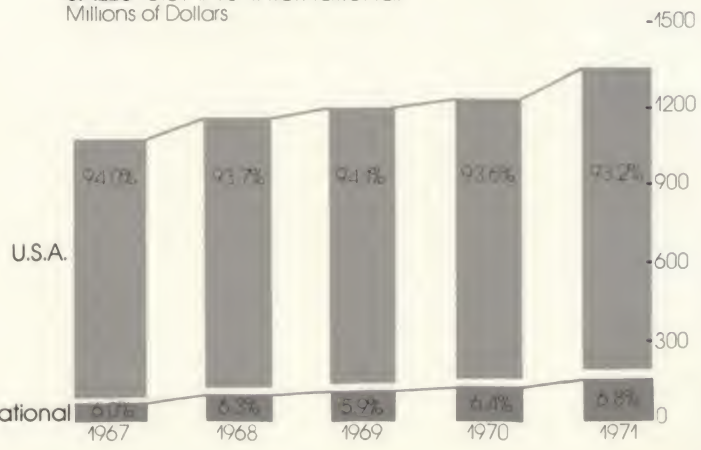
At the same time, a number of new companies joined GENESCO in 1971. Each of these operations either complements our existing divisions or expands us into important new apparel markets. The new retail companies include Harold's, a three-store group of women's specialty stores in Minneapolis, Minnesota. Plymouth Shops, Inc. is a group of 23 women's specialty stores in the New York City area. They operate under the names Plymouth and Poco. In Charlotte, North Carolina, Tate-Brown Co. has four men's specialty stores.

"...a number of new companies joined GENESCO in 1971. Each...either complements our existing divisions or expands us into important new apparel markets."

SALES Retailing vs. Manufacturing
Millions of Dollars



SALES U.S.A. vs. International
Millions of Dollars



The new manufacturing companies include Justin Charles Co., Inc., a children's apparel house headquartered in New York City. Style-Knit Inc. is a Greensboro, North Carolina, manufacturer of doubleknits. The Cherokee Sportswear Co., Inc. is a dress company in Madisonville, Tennessee, now operating as part of our Kenrose division. Dante', Inc., of New York City, manufactures Dante' brand men's jewelry, personal leather goods, toiletries, and accessories. The Salvatori Corporation makes Salvatori brand belts, suspenders, and small leather goods. Their headquarters are in Atlanta, Georgia.

Each of these new operations represents a sound investment and a good opportunity for GENESCO.

Also during the year, GENESCO and Beeline Fashions, Inc. signed a letter of intent for GENESCO to acquire Beeline. As was reported, these negotiations were dropped when we were unable to reach final agreement on terms.

State of the Corporation At the end of fiscal 1971, GENESCO had a total employment of 66,000 people worldwide. Of this total, 63,000 worked in the United States.

In the United States 20,000 employees were male, 43,000 were female, and 11,000 were from non-Caucasian minorities. This last figure represents a 14% increase over the previous year. Of our management employees, 76% were male, 24% were female, and 7% were from non-Caucasian minorities.

"In the United States 20,000 employees were male, 43,000 were female, and 11,000 were from non-Caucasian minorities."

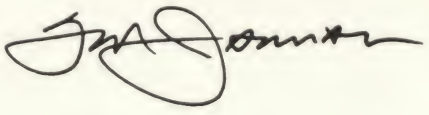
Our manufacturing operations totaled 304 plants and processing terminals around the world. As mentioned earlier, we currently have 2,452 retail stores and leased departments serving customers throughout the United States and in numerous other countries.

Statistical information on GENESCO's operations is charted on the preceding two pages. The sources of sales have been broken down over the last five years and include intercompany transactions. Immediately following this letter is more detailed information on the specific markets which GENESCO serves, how GENESCO performed in fiscal 1971, and our prospects for the coming year.

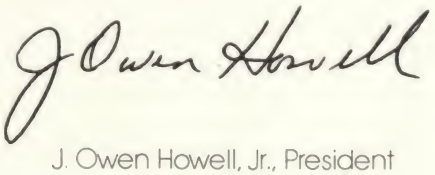
The Future The past year vividly illustrates the inadequacies in the art of economic forecasting. To attempt to make any specific projections on our own sales and earnings for the coming year would thus serve no real purpose. But we do know that, as a result of our cost-control efforts plus strategic capital outlays, we are in a strong position to take advantage of any upturn in the economy. We know that the consumer's personal savings are at a 25-year high (8.4% of personal disposable income), and his confidence at an all-time low (78 on the Consumer Confidence Index). We expect the President's economic moves to prove successful, thus significantly increasing consumer confidence and sparking a major recovery. And finally, we know that, by the very nature of our business, GENESCO's long-term prospects are excellent. The business of GENESCO is people and the apparel they wear. In order to serve them, GENESCO has been developed into a vertically and horizontally integrated, international company making and selling almost every kind of apparel for men, women, and children. With the population of the world to serve and our current position as the world's largest apparel company, we have no doubts about our ultimate prospects.

"The past year vividly illustrates the inadequacies in the art of economic forecasting."

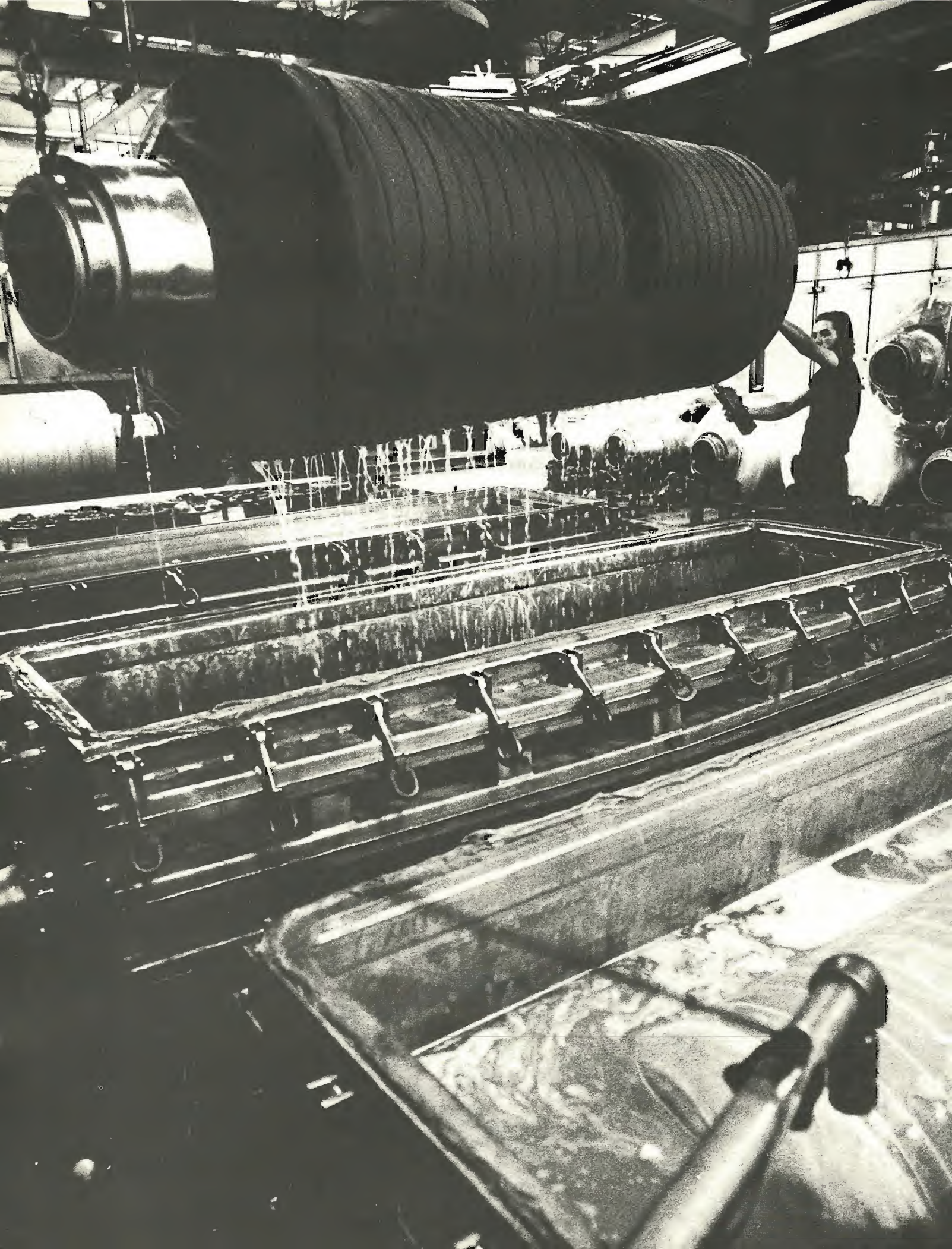
"The business of GENESCO is people and the apparel they wear."



Franklin M. Jarman, Chairman



J. Owen Howell, Jr., President



The Market The market for apparel raw materials and components was generally good in fiscal 1971. The first part of the year was weak for textiles as supply outpaced demand. But, in the second half, the boom in knits created strong demand for all kinds of knit fabrics and yarns.

The market for hides and shoe leather is generally determined by three factors in addition to domestic footwear production: the annual cattle kill; the strength of export sales; and military requirements. These factors combined to produce a good market throughout fiscal 1971. The popularity of boots for men and women has created an especially strong market for leather in this area. Another strong and rapidly growing market is in garment leather. Sales of other footwear components—heels, soles, finishes, sealants, adhesives, etc.—have shown good, steady increases.

GENESCO GENESCO has developed into one of the leading companies in the knit industry today. With 390 single, double, and warp knitting machines, not counting hosiery machines, GENESCO operations now manufacture almost every type of knit fabric for men's, women's and children's apparel and for industrial uses. For the majority of fiscal 1971, GENESCO's knit divisions were sold up with a backlog of orders. Industrial knits were hurt by the automobile strike, but improved with the settlement.

"For the majority of fiscal 1971, GENESCO's knit divisions were sold up with a backlog of orders."

The continuing strong market for leather and hides has been profitable for GENESCO. The apparel leather market has grown quite rapidly since a new finishing process developed by a GENESCO division has made possible a much softer, thinner leather. Leather finished in this process can be thin enough for shirts or thick enough for coats. The demand for such leather is currently far greater than capacity.

GENESCO's other component operations have benefited not only from a strong market, but also from other applications of their products. For example, a number of sealants and adhesives from our chemicals division are being used by the building supply and home construction industries, in addition to GENESCO's own plants. On the whole, GENESCO apparel materials and components operations have shown a marked profit improvement in fiscal 1971.

Outlook The tremendous demand for knits has created a rush of companies into the field, many producing goods of lesser quality. As manufacturing capacity catches up with demand, some of these companies will be unable to compete successfully. GENESCO's strong position in the knit industry puts it in an excellent position to pick up the slack and increase its share of the market.

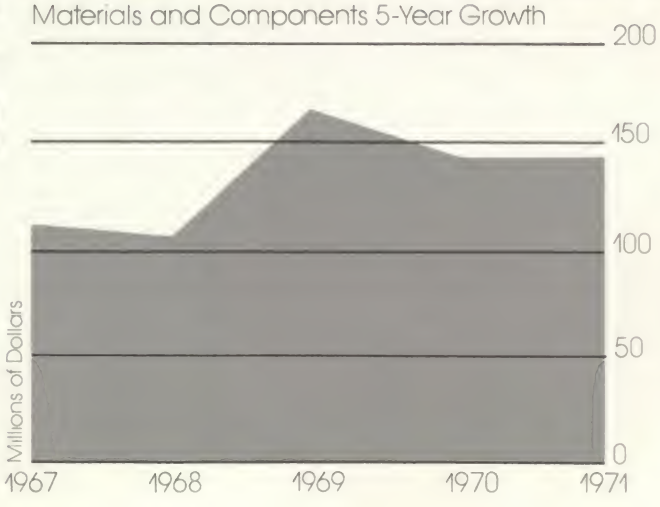
"As GENESCO continues to move towards a more vertically integrated apparel corporation, this whole area of business can be expected to show major growth."

A greater emphasis on warp knits, especially for men's apparel, is expected. Warp knits generally have greater stability and lower cost per ounce than double knits. As this change takes place, GENESCO will be ready, since it is already producing warp knits in quantity.

The hide and leather business should continue strong, as should the market for other apparel components. As GENESCO continues to move towards a more vertically integrated apparel corporation, this whole area of business can be expected to show major growth.

Materials & Components

1971



The Market The men's wear market in fiscal 1971 was mixed. Men's suits received a double blow from the depressed economy and from imports. Industry cuttings for fiscal 1971 fell below 15 million suits, a drop of almost 25% from the previous year. As a result, a number of marginal companies went out of business. But the introduction of knits caused an upswing in sales in the last half of the fiscal year.

"Men's suits received a double blow from the depressed economy and from imports."

Slacks, pants, and jeans continued to be strong. Sport shirts and dress shirts continued to have outstanding sales. Fashion-consciousness remained the key to the men's footwear market, and sales have continued at a good level. Imports have been less of a factor in men's than in women's footwear.

GENESCO GENESCO's men's suit divisions rode out the depressed market better than most companies. Improvements in production and management planning held costs and inventories down. GENESCO is now in a strong position to increase its share of the market by taking up the slack from those companies which went out of business.

"GENESCO's men's suit divisions rode out the depressed market better than most companies."

GENESCO also continues to hold a strong position in men's slacks and jeans. Its divisions produce complete lines of dress and casual branded and unbranded slacks and jeans in a wide price range.

Except for its custom shirt business and some contract production, GENESCO is not currently represented in the dress and sport shirt market.

In the men's shoe business, GENESCO fared well, increasing its production 5% during the fiscal year, while the industry as a whole contracted 1%.

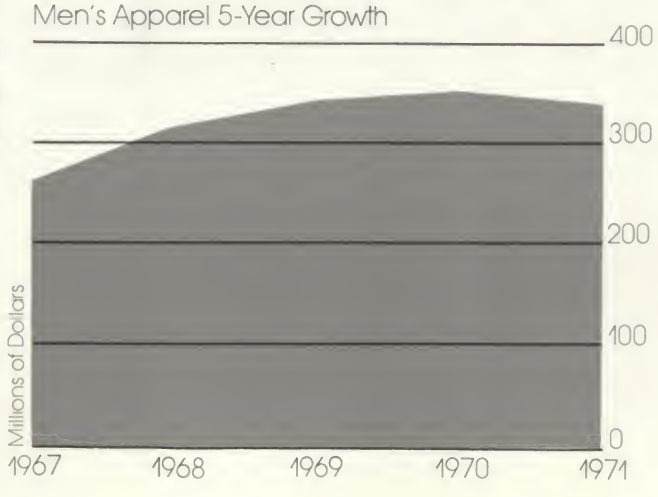
Outlook Three factors brighten the prospects for the men's suit industry. First, knits are the spur which is bringing a resurgence of consumer interest. GENESCO is in a particularly good position to capitalize on this factor due to the insured supply of quality knits from its own mills. Second, as the post-World War II generation continues to move into the job market, there will be an accompanying increase in sales of suits and sport coats. The recession has temporarily delayed this increase, but it should build as the economy improves. Third, and perhaps most important, GENESCO's development of the Lasermatic™ (described in more detail in the Research and Development section) represents a major improvement in the manufacturing process.

"GENESCO is in a particularly good position to capitalize on knits due to the insured supply of quality goods from its own mills."

The demand for all kinds of pants, slacks and jeans is expected to continue through 1972. GENESCO's vertical integration will also be a positive factor in its production of the increasingly popular knit slacks. The pipelines supplying slacks and jeans are beginning to fill, but GENESCO's divisions have already established their brand names and fashion awareness. They should be able to compete on a favorable basis in the coming year.

Prospects for the men's footwear market look good, as fashion and style continue to be major influences on sales. GENESCO's strong brand names and well-established lines of distribution should enable it to continue to increase its share of the market.

1971 Men's Apparel



The Market Three major problems affected women's clothing in fiscal 1971: the commercial unpopularity of the midi length; the continuing increase in imported goods; and the major changeover to polyester doubleknits. Of the three, the switch to knits was the most costly, since it meant higher piece goods costs, higher raw material and in-process inventories, expenditures for new equipment needed to work with knits, and employee retraining. As a result, margins were affected throughout the industry and women's apparel cuttings fell 13% to below 500 million units.

"...Women's apparel cuttings fell 13%..."

The women's shoe business also had a rough year, with fashion confusion and imports both cutting into sales. The only consistently strong seller during the year was boots. Sales did begin to pick up during the latter half of the year as the hemline controversy gradually resolved itself.

There were some bright spots. Slacks and pants suits enjoyed tremendous sales. The hotpants fad boosted spring sales. Intimate apparel sales, which had been in a decline, began to rebound as freer, less constricting garments were designed.

GENESCO Despite the many difficulties of the year, GENESCO's women's apparel operations showed distinct improvement in 1971. During the year, GENESCO's women's sportswear operations, which had been declining in prior years, were completely rebuilt. This effort has been very successful, and sales have exceeded expectations. The conversion to knits was expensive, but the new equipment was purchased and personnel retrained. The failure of the midi did not affect GENESCO's divisions as much as it did many others. GENESCO's divisions generally kept both their production and inventories of the longer lengths well below industry levels. Intimate apparel operations continued to move away from the traditional foundation garment concept by developing new forms of under apparel. Footwear operations suffered during the year, as did the industry as a whole. But while industry production fell 5% during the fiscal year, GENESCO's increased 1%. And aggressive marketing plus intensified cost control efforts caused both sales and earnings to hold up well.

"The conversion to knits was expensive, but the new equipment was purchased and personnel retrained."

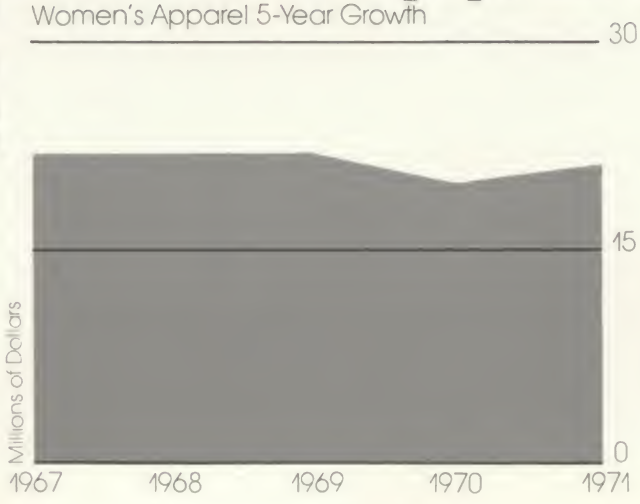
Outlook Prospects for fiscal 1972 are definitely improved. Dresses, which suffered from the boom in slacks and pants suits, have come back strongly for fall and winter. It is doubtful, however, that pants suit sales will continue at the same volume as in 1971. The resurgence of dresses should help both lingerie and hosiery sales. The footwear market has good possibilities for a recovery. General fashion indecision has caused women to reduce their footwear purchases for some time, but this pent-up demand could well be released in fiscal 1972.

On the whole, GENESCO's women's apparel operations have completed their sportswear rebuilding program and their retooling for knits in 1971, and results thus far are encouraging.

"On the whole, GENESCO's women's apparel operations have completed their sportswear rebuilding program..."

Women's Apparel

1971



The Market The market for children's apparel underwent a major change in fiscal 1971. Children's wear ceased to be a line business and became an item business. Instead of looking for an entire line of clothing, buyers began to demand new looks and fashion items which could be delivered quickly to catch the fashion-conscious young mother's eye. Children's footwear also developed into more of an item business. Although this change meant some hardships for the manufacturers, it also meant the chance for increased business at the expense of imports. Since imported apparel now requires some six months for manufacture and delivery, imports are not as competitive in this new item business.

"Children's wear ceased to be a line business and became an item business."

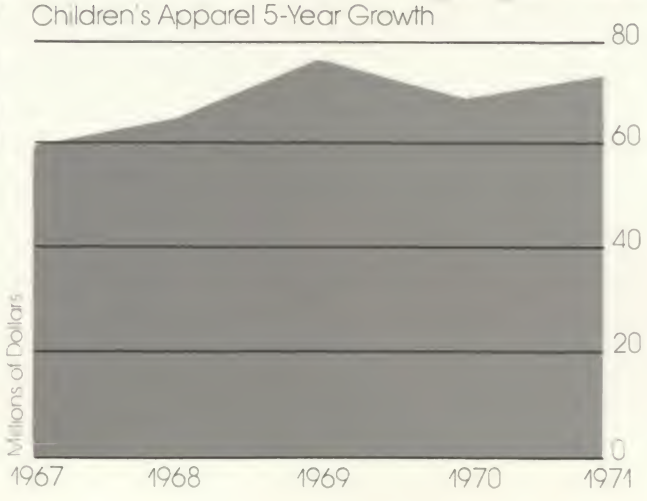
GENESCO For GENESCO's children's apparel divisions, this new trend required a basic change in operations. Instead of building complete lines, individual items are being offered. Instead of a single sales effort each season, new items are being offered every three weeks. Instead of waiting for established fashion trends to filter down to children's wear, the latest styles are being combed from New York, Paris, and other world fashion centers. These changes have caused some problems, but the overall effect has been increased volume and profits.

Outlook The prospects for the children's apparel market look quite good. The trend towards more fashion appears to be a continuing one which can be expected to generate higher dollar sales. At the same time, higher unit sales can be expected from the large numbers of young people now getting married and starting families. In 1972 alone the Census Bureau predicts over 3-1/2 million babies will be born.

"Higher sales can be expected from the large numbers of young people now getting married and starting families."

With its resources of fashion knowledge and manufacturing and distribution ability, GENESCO is in an excellent position to take advantage of these trends.

1971 Children's Apparel



STORE HOURS
FRIDAY 9:15 to 7:00
Y•SATURDAY 9:15 to 5:45

The Market Apparel retailing in fiscal 1971 started off slowly, with sales lagging behind comparable figures for the previous year. The hem length controversy cut women's apparel sales and affected footwear sales as well. The slack in the men's suit business hurt men's store sales, although men's footwear figures held up well throughout the year.

"The major problem seemed to be a reluctance on the part of the consumer to spend."

The major problem seemed to be a reluctance on the part of the consumer to spend. Concern about the economy, unemployment, the war, and other factors drove the University of Michigan's Consumer Confidence Index down to 78, the lowest level since the Index was started after World War II. As a result, personal savings rose to 8.4% of personal disposable income, the highest in 25 years. The consumer was willing to part with some of those savings for special occasions: sales for all the traditional shopping holidays showed good increases. It was not until the latter months of the fiscal year, however, that sales began to pick up on a regular basis.

A second major problem facing retailers is inventory shrinkage. Where 1% was the maximum acceptable only a few years ago, the National Retail Merchants Association now suggests 2% to 2-1/2% as a reasonable goal. This deterioration is nationwide and represents a serious cost burden.

GENESCO In relation to the industry, GENESCO retail operations generally had a good year although results were not always satisfactory. For the most part, shrinkage figures were consistent with industry figures, but there were some serious exceptions. Steps are being taken to correct these situations as quickly as possible.

"One particularly bright spot was men's footwear retail, which produced a 45% increase in earnings this year."

During the year, GENESCO took steps to expand and improve its operations. A major expansion of the Roos/Atkins stores into Southern California was begun. A 70,000-square-foot store was opened in Beverly Hills shortly after the close of the fiscal year. Four more suburban stores will open during the year.

The 325-store Kress chain of budget apparel and variety stores was reorganized into Eastern and Western divisions, and centralized buying offices were instituted.

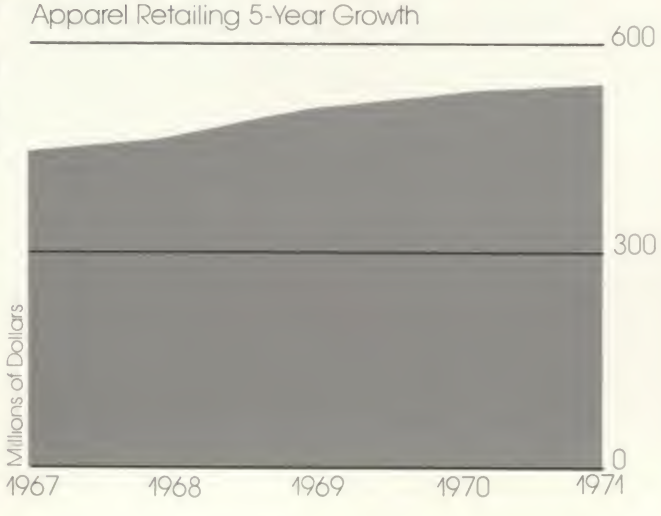
One particularly bright spot was men's footwear retail, which produced a 45% increase in earnings this year.

Outlook Fiscal 1972 is expected to show good general sales increases. The long drought in consumer spending and the low level of consumer confidence mean a good potential when that confidence is restored. President Nixon's economic moves are the key. If Congress enacts the President's tax proposals, the extra money available to the consumer will act as a strong spending incentive. And we expect the other moves to have positive effects on inflation and unemployment, causing consumer confidence to soar. All in all, the ingredients are present for a major recovery in 1972.

"All in all, the ingredients are present for a major recovery in 1972."

With their continuing programs of expansion and improvement, GENESCO's retail divisions are in a strong position to capture their share of a rising market.

1971 Retail



ARABIA

The Market The growth and development of corporations producing goods to serve multinational markets regardless of national boundaries has been one of the most significant modern business trends. Peter Drucker, the international management consultant, has called such multinational corporations "by far our most effective economic instrument today." Although a number of U.S. apparel companies have overseas operations, GENESCO is the largest approaching multinational status.

"...GENESCO is the largest apparel company approaching multinational status."

GENESCO GENESCO's international operations currently serve the three broad geographical markets of Canada, Europe, and the Pacific, in addition to imports into the United States. Canadian operations consist primarily of footwear manufacturing, wholesale, and retail. Other operations include an intimate apparel division. European operations are almost as broad in product range as GENESCO's United States operations, including apparel for men, women, and children. The Pacific is the newest area for GENESCO to enter. Except for some licensing arrangements and an Australian intimate apparel division, GENESCO does not now have extensive operations there. But the Pacific is regarded as a prime area for growth, and GENESCO is currently exploring a number of possibilities including an association with the major trading companies of Japan.

"The Pacific is regarded as a prime area for growth."

Another aspect of GENESCO's international operations is exporting. GENESCO already exports a number of its domestically produced apparel products to retailers and military post exchanges abroad. GENESCO is enlarging its distribution of apparel products throughout the world, wherever there is a demand.

GENESCO's philosophy on imports is that it would prefer to have domestic divisions produce all products for domestic consumption. But as long as imported textile, shoe, and apparel products hold a significant price advantage, GENESCO is compelled to maintain its competitive position by buying imported goods at any stage of production, from raw materials to finished product. GENESCO's job is to provide the customer with what he or she wants, regardless of its origin.

Outlook Economic and sociological conditions present problems over the short term for some of GENESCO's international operations in Europe. Italy especially is now suffering from political, economic, and labor problems. But over the longer term, this whole area can be expected to generate excellent growth. Canadian operations have continued to be strong, and the prospects for the Pacific area look good.

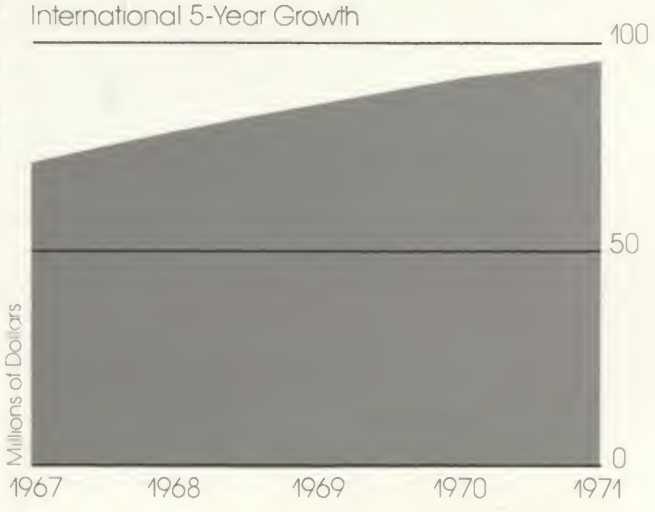
"Overall, GENESCO is expecting some of its greatest growth in the decade ahead from the international markets."

President Nixon's economic moves are not expected to affect GENESCO's international operations significantly. Most international production is planned for distribution in the countries or areas of origin. Since most GENESCO imports into the United States are fashion rather than price items, the 10% surcharge is not expected to have a material effect. The devaluation of the dollar should favorably affect exports from the United States.

Overall, GENESCO is expecting some of its greatest growth in the decade ahead from the international markets.

International

1971



1971 marked an important milestone in GENESCO's FAST (Fashion Apparel System of Tomorrow) program of apparel research and development. On 9 March at the Fredericksburg, Virginia plant of GENESCO's L. Greif and Bro. division, the Lasermatic,™ the world's first laser cloth cutter, was publicly demonstrated. This development, which was given international news coverage, is considered a major advance in apparel manufacturing technology.

"On 9 March... the Lasermatic,™ the world's first laser cloth cutter, was publicly demonstrated."

Using traditional methods, clothing manufacturers had to wait until orders for a sufficient number of the same item were accumulated. Then the cloth would be spread many layers high, and the pattern pieces would be cut out simultaneously with a power-driven knife. The theory was that the higher the layers cut, the lower the cutting cost per garment. But this approach meant delays in processing orders, increases in in-process inventory, and a need for large orders of identical goods. As a result, the whole manufacturing process was slowed down, unresponsive, and inflexible.

GENESCO researchers set out to find a cutting method (laser or any other) which could match the traditional method's speed and costs, but which would allow cutting "one-high"—one layer of cloth at a time. The final answer was the Lasermatic.™ This new one-high cutting method establishes a fixed cutting cost per garment independent of volume.

"This new one-high cutting method establishes a fixed cutting cost per garment independent of volume."

Since one suit can be cut as cheaply as ten, there is no need to accumulate orders. This in turn means no buildup of in-process inventories and no delays in filling customers' orders. And the Lasermatic™ is flexible: it can cut different styles and sizes one right after the other. This means faster reaction to changing consumer demands. In the men's suit business, cutting one-high with the Lasermatic™ means new life for an old industry.

The Lasermatic™ is not limited to men's suits, however. Plans call for its use in a number of different clothing plants, and applications to footwear manufacturing are also being considered. Over the next five years, some twenty to twenty-five Lasermatics™ are planned for installation in GENESCO plants.

The successful development of the Lasermatic™ does not, however, signal the end of the FAST program. FAST is aimed at developing a complete apparel manufacturing and distribution system utilizing the latest technological developments. Consequently, research into improvements in parts processing (joining, hemming, binding, folding, etc.) and forming systems, the two other basic sub-systems in apparel manufacturing, is also in process. Likewise, research is being done in the area of inventory and distribution systems. And since the best-made apparel won't sell if it's not what the customer wants, intensive consumer and marketing research is being done.

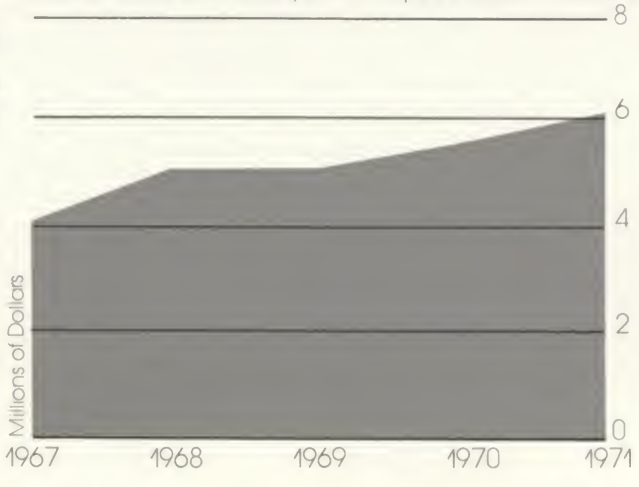
"...since the best-made apparel won't sell if it's not what the customer wants, intensive consumer and market research is being done."

Although the FAST program is a long-range, on-going one, the successful development of the Lasermatic™ means that the FAST concept is already beginning to pay off for GENESCO. We are already cutting some 1,000 suits per week by laser, and the first Lasermatic™ suits are appearing in stores across the country.

Research & Development

1971

Research and Development Expenditures 5-Year Growth



Divisions 1971

Apparel Raw Materials and Components

Capitol Products Company
Nashville, Tennessee
Cartons and containers

H. Elkan Company
Chicago, Illinois
Cattlehides

Elliott Associated Companies
Chicago, Illinois
Cattlehides

General Adhesives & Chemical
Nashville, Tennessee
Adhesives, finishes, and chemical products

Kingsboro Textile Company
New York, New York
Fabric knitting, dyeing, and finishing

Kingtex Fabrics Co.
Red Springs, North Carolina
Industrial knit fabrics

Lebanon Knitting Mill
Pawtucket, Rhode Island
Fabric knitting, dyeing, and finishing

Sole Leather Contan
Nashville, Tennessee
Contract production of sole leather

Southern Sole Company
Nashville, Tennessee
Cut soles and findings

Style-Knit
Greensboro, North Carolina
Knit fabrics

Swift Spinning Mills
Columbus, Georgia
Natural, carded, and combed yarns, blends, 100% synthetics

Tennessee Leather Company
Milan, Tennessee
Side leather finishing

Upper Leather Contan
Nashville, Tennessee
Contract tanning of upper leather

Valmore Leather Company
Nashville, Tennessee
Sole leather sales

Whitehall Leather Company
Whitehall, Michigan
Leather tanning

Wood & Hyde Leather Co.
Gloversville, New York
Glove and garment leather

Men's Apparel

Ainsbrooke/Flagg
New York, New York
Underwear and pajamas

Hardy Amies of London
New York, New York
Fashion apparel designed by Hardy Amies

Camp & McInnes
New York, New York
Quality hosiery

Cedar Crest Shoe Co.
Nashville, Tennessee
Service, dress and special-purpose footwear

Danté, Inc.
New York, New York
Jewelry, small leather goods and toiletries

Dominion Shoe Company
Nashville, Tennessee
Private-label footwear

Douglas Shoe Company
Nashville, Tennessee
Dress and service footwear

English-American Tailoring Company
Baltimore, Maryland
Individualized, made-to-order clothing

Esquire Sportswear Manufacturing Corp.
New York, New York
Slacks, sportswear and rainwear

L. Greif and Bro.
Baltimore, Maryland
Medium and higher priced tailored clothing

H-K Corporation
Atlanta, Georgia
MALE slacks and jeans

Hayes Garment Company
Nashville, Tennessee
Sportswear, uniforms, and career apparel

Individualized Custom Shirts
Perth Amboy, New Jersey
Custom shirts

Jarman Shoe Company
Nashville, Tennessee
Footwear

Johnston & Murphy Shoe Co.
Nashville, Tennessee
Footwear

Jordan Clothing Co.
New York, New York
Private-label tailored clothing

Lally Manufacturing Co.
Utica, New York
Thermal underwear and insulated garments

Phoenix, Inc.
New York, New York
Tailored clothing

Republic Shoe Co.
Nashville, Tennessee
Private-label footwear

Salvatori Corporation
Atlanta, Georgia
Belts and personal leatherwear

Sandy McGee Shoe Company
Nashville, Tennessee
Popular-priced footwear

Sentry Shoe Company
Nashville, Tennessee
Private-label footwear

Triangle Shoe Manufacturing
Nashville, Tennessee
Footwear manufacturing

Troy District Shirt Company
New York, New York
Dress shirts

WeatheRogue, Inc.
New York, New York
Rainwear

Women's Apparel

Charles H. Bacon Co., Inc.
Lenoir City, Tennessee
Hosiery

Berkshire Apparel Co.
Malden, Massachusetts
Women's and misses' dresses

Beverly Paige
New York, New York
Misses' sportswear

Charm Step Shoe Co.
Nashville, Tennessee
Women's popular-priced footwear

Cover Girl Shoe Co.
Nashville, Tennessee
Contemporary footwear for young women

Dominion Shoe Co.
Nashville, Tennessee
Private-label footwear

Easy Street Shoe Co.
Nashville, Tennessee
Classic fashion footwear

Evins Shoe Company
New York, New York
Quality fashion footwear

Fanfare
New York, New York
Blouses

Formfit Rogers
New York, New York
Lingerie and foundation wear

Greensboro Mfg. Co.
New York, New York
Popular-priced sleepwear

Hamilton Sales Co.
New York, New York
Private-label foundation wear and lingerie

Kelita
New York, New York
Junior and junior petite sportswear

Kenrose
New York, New York
Popular-priced dresses, robes, sportswear and uniforms

Mademoiselle/Mannequin Shoe Co.
New York, New York
Fashion footwear

Mayfair Sportswear
New York, New York
Casual outerwear

I. Miller Wholesale
New York, New York
Quality footwear

National Vogue Shoemakers
Nashville, Tennessee
Fashion footwear

New York Mackintosh
New York, New York
Misses' and juniors' rainwear

Pyramid Manufacturing Co.
Nashville, Tennessee
Footwear manufacturing

Republic Shoe Company
Nashville, Tennessee
Private-label footwear

Robby Len Fashions
New York, New York
Popular-priced swimwear

Rona Dresses
New York, New York
Dresses and ensembles

Sentry Shoe Company
Nashville, Tennessee
Private-label footwear

Susan Thomas
New York, New York
Dresses, separates and coordinates

Women's Apparel Manufacturing
Speers, Pennsylvania
Contract apparel manufacturing

Children's Apparel

Acrobat Shoe Company
Nashville, Tennessee
Footwear

Ainsbrooke/Flagg
New York, New York
Boys' underwear and pajamas

Charles H. Bacon Co.
Lenoir City, Tennessee
Hosiery

Dominion Shoe Co.
Nashville, Tennessee
Private-label footwear

G. H. & E. Freydberg
New York, New York
Popular-priced apparel

Girltown
Boston, Massachusetts
Sportswear

Greensboro Mfg. Co.
New York, New York
Popular-priced sleepwear

Justin Charles Co.
New York, New York
Popular-priced sweaters, swimwear, skirts and dresses

Lally Manufacturing Co.
Utica, New York
Insulated underwear

New York Mackintosh
New York, New York
Rainwear

Pyramid Shoe Manufacturing
Nashville, Tennessee
Footwear manufacturing

Republic Shoe Co.
Nashville, Tennessee
Private-label footwear

Sentry Shoe Company
Nashville, Tennessee
Private-label footwear

Storybook Shoe Co.
Nashville, Tennessee
Footwear

Apparel Retail

Al Goodman
Charlotte, North Carolina
Women's quality fashion shoe stores

Allen Stores
Nashville, Tennessee
Women's popular-priced shoe stores

Baron's
Miami Beach, Florida
Men's clothing stores principally in the Southeast

Bell Bros.
Nashville, Tennessee
Popular-priced family shoe stores

Henri Bendel
New York, New York
Specialty apparel store for women on New York's fashionable 57th Street

Berland Shoe Company
Nashville, Tennessee
Leased family shoe departments, discount stores and department stores

Bonwit Teller
New York, New York
Specialty apparel stores in New York, Chicago, Cleveland, Boston, Philadelphia, Palm Beach, Manhasset, L.I., N.Y., Short Hills, N.J., Oak Brook, Ill., Jenkintown and Wynnewood, Pa., Westchester County, N.Y., and Troy, Mich.

Brittain's
Raleigh, North Carolina
Family shoe stores

Burkhardt's
Cincinnati, Ohio
Men's clothing stores in Cincinnati and Dayton, Ohio, Louisville, Ky and Nashville, Tenn.

Burkhardt-Davidson's
Cleveland, Ohio
Men's clothing stores in the Cleveland area

Delman's
New York, New York
Women's quality fashion shoes

V. J. Elmore
Birmingham, Alabama
Budget store chain, primarily in the South

Flagg Bros.
Nashville, Tennessee
Shoe stores featuring footwear particularly designed for young men

Frank Bros.
New York, New York
Stores for men in New York, Chicago, Detroit, and Palm Beach

French Bootery
Waco, Texas
Family shoe stores

Gidding-Jenny
Cincinnati, Ohio
Specialty apparel stores for women in Cincinnati and Dayton, Ohio, Louisville, Ky.

M. Gilbert & Sons
South Bend, Indiana
Men's and women's apparel stores in the South Bend area

Graves, Cox & Company
Lexington, Kentucky
Men's clothing stores in the Lexington area

Guarantee Shoe Stores
San Antonio, Texas
Family shoe stores

Hall-Brown
Knoxville, Tennessee
Men's clothing stores in the Knoxville area

John Hardy Shoe Company
Nashville, Tennessee
Popular-priced men's shoe stores

Harold's
Minneapolis, Minnesota
Women's specialty stores in Minneapolis

Holiday-Wise
Nashville, Tennessee
Shoe stores selling medium-priced women's fashion shoes

Innes Shoe Stores
Los Angeles, California
Family shoe stores

Jarman
Nashville, Tennessee
Men's shoe stores and leased departments featuring Jarman shoes

Charles Jourdan
New York, New York
Women's quality fashion footwear

Divisions

1971

(continued)

Apparel Retail (continued)

S. H. Kress and Company
New York, New York
Nationwide chain of budget apparel and variety stores

Manss
Nashville, Tennessee
Women's quality fashion shoe stores

McFarlin Clothing Co.
Rochester, New York
Stores for men's and women's apparel

McInerny's
Honolulu, Hawaii
Quality men's and women's apparel stores in Hawaii

I. Miller Salons
New York, New York
Women's quality fashion shoe salons in New York and other major cities

Murphy Retail
Nashville, Tennessee
Leased departments featuring J & M shoes

Plymouth Shops
New York, New York
Women's specialty shops in the New York metropolitan area

Roger Kent
New York, New York
Stores for men in New York, Boston and Philadelphia

Roos/Atkins
San Francisco, California
Quality men's and women's apparel stores in the West

Sommer & Kaufmann
San Francisco, California
Family shoe stores

L. Strauss & Company
Indianapolis, Indiana
Men's and women's apparel stores in Indianapolis

Tate-Brown
Charlotte, North Carolina
Men's clothing stores in the Charlotte area

Valmart
Nashville, Tennessee
General merchandise and family apparel budget stores and leased departments

Whitehouse & Hardy
New York, New York
Stores for men's clothing, furnishings and shoes

International Operations

Adonis
New York, New York
Men's branded footwear import

Agnew-Surpass Shoe Stores, Ltd.
Brantford, Ontario
Coast-to-coast chain of family shoe stores

Bohne Morgenrocke
Berlin, West Germany
Women's robes

British Rubber Corporation
Lachine, Quebec, Canada
Manufacturers and distributors of protective footwear

Chaussures Rehault, S.A.
Fougeres, France
Manufacturer and wholesaler of women's shoes

Charmor AG
Weingarten, West Germany
Lingerie

Confezioni Sanremo, S.p.A.
Montebelluna (Treviso), Italy
Manufacturer of men's and boys' ready-to-wear

Domani
New York, New York
Women's branded import shoes

Eterna
Tournai, Belgium
Men's shirts

Eterna
Passau, West Germany
Men's shirts

Export Sales Company
Nashville, Tennessee
All company products for export

Formfit of Australia
Guildford, Australia
Manufacturer and wholesaler of foundation garments

Formfit Canada
Toronto, Ontario, Canada
Intimate apparel

General Shoe of Canada
Preston, Ontario, Canada
Manufacturers and wholesalers of men's and children's shoes

GENESCO Footwear Import Company
Nashville, Tennessee
Men's and women's shoes

GENESCO Pacific
New York, New York
Apparel imports

The J. A. Johnston Company
Brockville, Ontario, Canada
Wholesalers and retailers of shoes for men, women and children

J.E.F.
Les Lilas, France
Manufacturer and wholesaler of lingerie and foundation garments

Charles Jourdan & Sons
Romans, France
Manufacturer, wholesaler and retailer of women's quality fashion footwear

Lastina
Alkmaar, Holland
Manufacturer, wholesaler and retailer of women's foundation garments

Martyn Formcraft N. V.
Amsterdam, Holland
Manufacturer, wholesaler, and retailer of women's foundation garments

Montreal Shoe Stores, Ltd.
Lachine, Quebec, Canada
Family shoe stores

Nadia, S.A.
Termonde, Belgium
Manufacturer, wholesaler, and retailer of women's shoes

Perfect Form S.p.A.
Tavernerio (Como), Italy
Women's foundation garments

H. & M. Rayne Company
London, England
Women's fashion footwear

Renegades
New York, New York
Men's specialty import shoes

Reward Shoe Stores
Brockville, Ontario, Canada
Family shoe stores

Sarl Dumaine
Rambouillet, France
Retailer of women's shoes

Swan Original S.p.A.
Milano, Italy
Women's beachwear

Textima Textingo Sarl
Matosinhos, Portugal
Apparel for export

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Vice President—Group Director, GENESCO.

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Vice President—Group Director, GENESCO

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Director, GENESCO

Eli G. White
Vice President—Group Director, GENESCO

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Chairman, Nashville City Bank & Trust Co., Nashville, Tennessee

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Executive Vice President, Chairman—Executive Committee, GENESCO

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J. Owen Howell, Jr.

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E. DeVaughn Woods

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Robert C. Hilton
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Earl Pertnoy
Duke J. Rose
Eli G. White
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Larry B. Shelton

Vice President—Organization Planning
Ralph H. Bowles

Vice President—Marketing
William S. Flanagan

Vice President—National Accounts
W. Gregory Quick

Vice President—Corporate Development
Leonard K. Guiler

Vice President—Corporate Secretary
James G. DeLacey

Vice President—Corporate Relations
Sam A. Buchanan

Vice President—Operations Planning and Coordination
Kirk H. Low

Vice President—Manpower Planning and Coordination
George C. Collins

Vice President—Footwear Marketing
George Q. Langstaff, Jr.

Vice President—Footwear Manufacturing
James H. Cheek, Jr.

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Rodes Ennis
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Paul O. Oberhellmann
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J. Harvey Ruth
Stuart Schultz
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Jimmie D. White

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T. Douglas Oxford

Assistant Secretaries
Willard L. Bland
William F. Long

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W. Maxey Jarman
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Harold K. Johnson
Madison S. Wigginton

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James G. DeLacey
George C. Collins
Willard Sledge

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Madison S. Wigginton, Chairman
William M. Blackie
Noble C. Caudill
J. Harlan Lawson
William H. Wemyss

Management

1971

CONSOLIDATED BALANCE SHEET 31 July

ASSETS	1971	1970 Restated
Current Assets:		
Cash	$ 30,395,000	$ 35,962,000
Receivables	67,957,000	90,343,000
Inventories	289,609,000	276,529,000
Prepaid expenses	5,533,000	3,364,000
Prepaid income taxes	7,500,000	10,261,000
Total Current Assets	400,994,000	416,459,000
Investments and long-term receivables	32,915,000	25,097,000
Plant, equipment and lease rights	169,861,000	154,436,000
Debt discount	1,319,000	570,000
Investment in excess of equity	11,279,000	5,623,000
TOTAL ASSETS	$616,368,000	$602,185,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses, income taxes and current portion of long-term debt	$ 91,644,000	$ 92,341,000
Long-term debt	123,944,000	112,864,000
Lease obligations	66,155,000	52,875,000
Minority interests	867,000	746,000
Deferred income taxes	3,684,000	3,236,000
Deferred credits to income	26,818,000	29,918,000
Stockholders' equity	303,256,000	310,205,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$616,368,000	$602,185,000

This page should be read in conjunction with the Financial Review on pages 28, 29, 30 and 31.

Financial Statements

1971

CONSOLIDATED EARNINGS Year ended 31 July

	1971	1970 Restated
Sales	$1,306,844,000	$1,278,134,000
Other income	(199,000)	3,264,000
Total Income	1,306,645,000	1,281,398,000
Cost of sales	891,983,000	893,975,000
Selling, administrative and general expenses	347,814,000	322,216,000
Interest expense	19,905,000	19,308,000
Federal, state and Canadian income taxes	21,020,000	20,332,000
Minority interests	215,000	269,000
Total Deductions	1,280,937,000	1,256,100,000
Earnings before extraordinary loss	25,708,000	25,298,000
Extraordinary loss on discontinued operations net of income tax credits of $9,092,000 and $1,801,000	(9,849,000)	(2,368,000)
Net Earnings	$ 15,859,000	$ 22,930,000
Earnings per common and common equivalent share		
Primary		
Before extraordinary loss	$1.83	$1.86
Extraordinary loss	(.81)	(.20)
Net earnings	$1.02	$1.66
Fully diluted		
Before extraordinary loss	$1.72	$1.72
Extraordinary loss	(.72)	(.17)
Net earnings	$1.00	$1.55

This page should be read in conjunction with the Financial Review on pages 28, 29, 30 and 31

CONSOLIDATED EARNINGS RETAINED IN BUSINESS Year ended 31 July

	1971	1970 Restated
Balance at beginning of year		
As previously reported		$170,959,000
Accounting principles change		(3,837,000)
Companies pooled during the year		4,105,000
Restated balance at beginning of year	**$173,144,000**	171,227,000
Net earnings	**15,859,000**	22,930,000
Common dividends paid	**(19,205,000)**	(17,678,000)
Preferred dividends paid	**(3,438,000)**	(3,335,000)
Balance at end of year	**$166,360,000**	$173,144,000

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL Year ended 31 July

	1971	1970 Restated
Balance at beginning of year	**$128,001,000**	$121,104,000
Sales price or fair market in excess of par or stated value of common and preferred shares issued	**3,169,000**	5,924,000
Stated value of preferred stock or principal amount of notes converted, in excess of the par value of common shares issued in exchange	**2,032,000**	973,000
Balance at end of year	**$133,202,000**	$128,001,000

This page should be read in conjunction with the Financial Review on pages 28, 29, 30 and 31.

Financial Statements

1971

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS Year ended 31 July

	1971	1970 Restated
SOURCE OF FUNDS		
Net earnings	**$ 15,859,000**	$ 22,930,000
Depreciation and amortization	**12,634,000**	12,080,000
Amortization of debt discount and increase in deferred taxes	**624,000**	328,000
Credits to earnings not providing funds	**(957,000)**	(2,603,000)
Funds derived from operations	**28,160,000**	32,735,000
Proceeds from sale of capital stock	**3,855,000**	6,675,000
Proceeds from long-term debt issued	**59,309,000**	212,000
Other changes in deferred credits to income	**410,000**	2,691,000
Plant and equipment sales, including sales and leasebacks	**7,063,000**	8,659,000
	$ 98,797,000	$ 50,972,000
USE OF FUNDS		
Dividends paid	**$ 22,643,000**	$ 21,013,000
Treasury stock acquired	**4,020,000**	2,051,000
Long-term debt paid or charged against working capital	**48,229,000**	7,129,000
Change in minority interests	**(121,000)**	654,000
Other changes in investments and long-term receivables	**9,990,000**	8,276,000
Plant and equipment purchases	**21,841,000**	28,811,000
Increase in excess of cost over equity	**6,038,000**	183,000
Increase in debt discount	**925,000**	62,000
Decrease in working capital	**(14,768,000)**	(17,207,000)
	$ 98,797,000	$ 50,972,000
Increase (Decrease) in working capital		
Cash	**$ (5,567,000)**	$ (7,515,000)
Accounts receivable	**(22,386,000)**	(40,475,000)
Inventories	**13,080,000**	15,912,000
Prepaid expenses	**2,169,000**	(916,000)
Prepaid income taxes	**(2,761,000)**	10,261,000
Total current assets	**(15,465,000)**	(22,733,000)
Current liabilities	**(697,000)**	(5,526,000)
Working capital	**$ (14,768,000)**	$ (17,207,000)

This page should be read in conjunction with the Financial Review on pages 28, 29, 30 and 31.

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Life and Casualty Tower
Nashville, Tennessee 37219

The Board of Directors and Stockholders
GENESCO Inc.:

We have examined the consolidated balance sheets of GENESCO Inc. and consolidated subsidiaries as of 31 July 1971 and 1970 and the related statements of earnings, earnings retained in business, additional paid-in capital and source and use of funds for the respective years then ended. We have also examined the consolidated balance sheets of GENESCO Financial Corporation as set forth in the Financial Review. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of GENESCO Inc. and consolidated subsidiaries and of GENESCO Financial Corporation at 31 July 1971 and 1970 and the results of operations and source and use of funds of GENESCO Inc. and consolidated subsidiaries for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, as restated with our approval, as described in the Accounting Principles note.

Peat, Marwick, Mitchell & Co.

26 August 1971

GENESCO FINANCIAL REVIEW

Accounting Principles: All subsidiaries are consolidated, except GENESCO Financial Corporation, and those with operations outside the United States and Canada, which have no material effect on the financial statements taken as a whole. Nonconsolidated subsidiaries, together with 50% owned companies, are carried at equity value. Canadian subsidiaries included in the consolidated financial statements were converted into U.S. dollars using the exchange rate in effect at 31 July 1971 and 1970.

Comparative financial data for 1970 has been restated to include several companies acquired on a pooling of interests basis for a total consideration of 431,800 shares of common stock. Sales and earnings of these companies prior to the actual acquisition date were $22,133,000 and $1,470,000 in 1971 and $28,191,000 and $1,049,000 in 1970, respectively. The company also acquired several companies on a purchase basis for a total consideration of $10,065,000 in cash and notes, plus an additional 55,000 shares of common stock to be issued contingent upon future earnings of the acquired companies. These companies were purchased as of the beginning of fiscal 1971. Fiscal 1970 results would not have been significantly changed if these companies had been acquired at the beginning of 1970.

The 1971 and restated 1970 balance sheets reflect a change in presentation of the excess of cost over equity of purchased companies previously included in deferred credits to income into a separate balance sheet caption. These excess costs, including those arising from the purchase in 1971 of several companies, are being amortized over a 40-year period, whereas in prior years certain of the excesses were being amortized over shorter periods. The effect of this revision of the period of amortization was to reduce the annual charge to earnings by approximately $900,000 in the current year as compared with prior years.

During 1971 the company changed from the deferral method of accounting for costs applicable to the development of management information systems and plant start-up costs to the direct charge-off method. The 1971 and restated 1970 financials reflect this change in application of accounting principles retroactively, as a prior period adjustment, with no significant effect on operating results for either of these years.

Accounts Receivable: Accounts receivable at 31 July are itemized below:

	1971	1970
Total accounts receivable	$200,272,000	$194,003,000
Sold to financial institutions	152,315,000	120,660,000
Net	47,957,000	73,343,000
Due from GENESCO Financial Corporation	20,000,000	17,000,000
Total per consolidated balance sheet	$ 67,957,000	$ 90,343,000

Receivables as shown in the consolidated balance sheet are net of allowance for doubtful accounts and cash discounts amounting to $8,876,000 and $9,080,000 in 1971 and 1970, respectively.

GENESCO Financial Corporation: GENESCO sells certain of its accounts receivable to GENESCO Financial Corporation (GFC), a wholly-owned nonconsolidated subsidiary, at the outstanding balance less a reserve against which uncollectible accounts will be charged. GFC's earnings are derived primarily from monthly charges to the parent company which are designed to cover GFC's fixed charges at least 1.5 times. GFC's pretax income of $2,249,000 in 1971 and $1,251,000 in 1970 is reflected on the consolidated earnings statement of GENESCO as a reduction of interest expense with the income tax thereon applied as an increase in income taxes.

The condensed balance sheet of GENESCO Financial Corporation follows:

GENESCO Financial Corporation and Subsidiary
Consolidated Balance Sheet
31 July

	1971	1970
Assets		
Cash	$ 59,000	$ 136,000
Accounts receivable purchased from GENESCO less a 15% contract reserve withheld	131,591,000	104,649,000
Note receivable—Trustee of GENESCO employee stock purchase plans	—	7,000,000
Notes receivable—other	3,867,000	4,181,000
Prepaid interest	1,147,000	1,266,000
Investments and other assets	609,000	534,000
	$137,273,000	$117,766,000
Liabilities		
Notes payable to banks	$107,650,000	$ 92,250,000
Subordinated 90-day notes due GENESCO	20,000,000	17,000,000
Accrued liabilities	70,000	630,000
Due to GENESCO	52,000	485,000
Stockholders' equity	9,501,000	7,401,000
	$137,273,000	$117,766,000

Inventories: Inventories valued at the lower of approximate average cost or market included $204,814,000 of finished products in 1971 and $201,725,000 in 1970. Raw materials and work in process amounted to $84,795,000 in 1971 and $74,804,000 in 1970. Inventories in transit in

the amount of approximately $9,600,000 at 31 July 1971 and $5,800,000 at 31 July 1970 are not included in the above

Investments and Long-Term Receivables: At 31 July 1971 investments in nonconsolidated subsidiaries and 50% owned companies amounted to $18,983,000 compared to $20,556,000 in 1970. The results of operations of these companies, except GENESCO Financial Corporation, are reflected in other income (charges). Employees' secured stock purchase accounts were $14,000 at 31 July 1971 and $2,290,000 at 31 July 1970. Other investments, carried at cost, were $2,684,000 at 31 July 1971 and $2,251,000 at 31 July 1970. At 31 July 1971 recoverable income taxes amounted to $11,234,000.

Plant, Equipment and Lease Rights: Plant, equipment and lease rights at cost are as follows:

	1971	1970
Land	$ 2,207,000	$ 2,267,000
Buildings and building equipment	13,288,000	14,459,000
Machinery and equipment	71,422,000	68,910,000
Furniture and fixtures	67,099,000	62,837,000
Construction in process	6,120,000	5,667,000
Improvements to leased property	58,033,000	54,442,000
	218,169,000	208,582,000
Less accumulated depreciation and amortization	118,151,000	109,747,000
Net plant and equipment	100,018,000	98,835,000
Lease rights	69,843,000	55,601,000
	$169,861,000	$154,436,000

Depreciation and amortization expense, computed principally on the straight-line method, applicable to plant and equipment amounted to $12,634,000 in 1971 and $12,080,000 in 1970. Lease rights include property costs which have been capitalized and are being amortized over the estimated useful life of the related asset. The discounted aggregate rentals (including $6,317,000 payable in 1972) are shown in the balance sheet as lease obligations.

Income Taxes: The company recognizes certain income and expense items for tax purposes in years other than the years in which they are reported in the financial statements. These items include depreciation, profits on installment sales, expenditures for tools and dies and deductions related to accounts receivable. These timing differences resulted in a credit to the 1971 Federal income tax expense of approximately $1,912,000 and a charge of approximately $441,000 in 1970. In addition, Federal income tax expense has been reduced by an investment credit of $385,000 for 1971 and $560,000 for 1970.

The company has received reports from the Internal Revenue Service on the results of its examination of the company's and its subsidiaries' tax returns for the fiscal years 1964, 1965 and 1966. The company, relying on advice of tax counsel, is satisfied that, while a number of complex issues have been raised, any tax deficiencies which may ultimately be determined will not materially affect the financial position of the company.

The company has held extensive discussions with the IRS agents, but has been unable to reach any agreement. Along with the substantial proposed adjustments, the IRS states that they have not been able to make an exact determination of the net amount of the deficiencies that would be claimed against the company and its subsidiaries as a group due to duplications in tax liabilities asserted. For these reasons, no provision has been made for any deficiencies which may ultimately be paid.

Long-Term Debt: In November 1970, the company sold to the public $50,000,000 of its 9.25% notes due 1976. Of the net proceeds, $40,000,000 was used to prepay notes payable to banks due August 1972. The remainder was added to the general funds of the company. In addition, as a result of an acquisition during the year, the company incurred an obligation amounting to $7,715,000 which bears interest at 4.875%.

Long-term debt outstanding at 31 July 1971 is as follows:

	Current	Noncurrent
4.75% convertible subordinated notes dated July 1962, due 1982, with annual payments beginning 1973, convertible into common stock at $25.20 per share	$ —	$ 500,000
4.875% seven-year obligation payable in annual installments of $1,000,000	1,000,000	5,715,000
5.00% notes dated July 1964, due 1984, with annual payments of $2,000,000	2,000,000	36,000,000
5.25% notes dated February 1961, due 1981, with annual payments of $938,000	938,000	12,496,000
6.00% notes dated January 1971, due 1974 with annual payments of $275,000	275,000	550,000
7.25% Deutsch Mark (DM20,000,000) note payable to foreign banks dated July 1969, due July 1976, with annual payments of DM7,000,000 beginning July 1974	—	5,000,000
7.50% Deutsch Mark (DM20,000,000) notes payable to foreign banks dated July 1969, due 1976	—	5,000,000
9.25% notes dated November 1970, due 1976	—	50,000,000
Notes payable incurred by subsidiaries prior to acquisition due in varying amounts to 1985 at various interest rates, the major portion of which are from 4.50% to 8.00% (guaranteed by GENESCO Inc.)	1,751,000	8,683,000
Total	$5,964,000	$123,944,000

The company guarantees all payments on the $12,383,000 debentures of a nonconsolidated foreign finance subsidiary. The guarantee is subordinated to the prior payment in full of all present and future senior indebtedness.

The company is in compliance with all the restrictive covenants contained in its various loan agreements and indentures. The company's 9.25% notes, issued in November 1970, are the most restrictive regarding the payment of dividends. At 31 July 1971 there were approximately $30,000,000 of retained earnings free of this dividend restriction.

Deferred Credits to Income: Deferred credits to income consist of profits of $22,111,000 at 31 July 1971 and $23,389,000 at 31 July 1970 from the sale and leaseback of real properties and equipment which are being amortized over the lives of the respective leases, and the excess of equity over cost of purchased companies in the amount of $4,707,000 at 31 July 1971 and $6,529,000 at 31 July 1970 which is being amortized over a period of 10 years. Amortization of these credits, net of taxes, amounted to $3,151,000 in 1971 and $3,024,000 in 1970.

Long-Term Lease Commitments: The company has long-term leases in effect with a total minimum annual rental (excluding amounts included in lease obligations) of $42,684,000 of which $14,313,000 is applicable to leases expiring by 31 July 1976, $27,947,000 is applicable to leases expiring between 1 August 1976 and 31 July 1996 and $424,000 is applicable to leases expiring after 31 July 1996.

Stockholders' Equity: The changes in the shares of the company's capital stock during the year ended 31 July 1971 and 1970 are summarized as follows.

	Common		Preferred	
	Issued	Treasury	Employees'	Other
Balance at 31 July 1969	10,885,097	623,361	1,353,125	979,970
Poolings of interests*	223,695	(129,082)	–	25,335
Purchases	–	54,880	–	–
Merger of S. H. Kress	–	–	–	1,518
Conversion of securities	141,557	–	(7,779)	(43,858)
Employee options and purchase plans	266,969	–	35,190	1,662
Balance at 31 July 1970	11,517,318	549,159	1,380,536	964,627
Poolings of interests*	446,064	(3,191)	–	20,358
Balance at 31 July 1970 restated	11,963,382	545,968	1,380,536	984,985
Purchases	–	27,365	–	–
Conversion of securities	126,240	–	(34,273)	(26,800)
Employee options and purchase plans	90,479	–	56,325	–
	12,180,101	573,333	1,402,588	958,185
Less treasury stock	573,333		152,567	1,860
Outstanding at 31 July 1971	11,606,768		1,250,021	956,325

*Includes incentive shares issued to former stockholders of companies acquired in prior years.

The company's stockholders' equity is detailed below

	1971	1970
$4.50 cumulative convertible preferred stock at $100 stated and liquidation value per share The redemption value is $103.50 per share Each share is convertible into 3.75 common shares. Authorized 82,368 shares; outstanding 1971—24,073 shares, 1970—40,059 shares	$ 2,407,000	$ 4,006,000
$4.25 subordinated cumulative convertible preference stock, Series A at $3.00 stated value per share. The redemption and liquidation value is $100 per share. Each share is convertible into 3.0 common shares. Authorized 68,943 shares; outstanding 600 shares	2,000	2,000
$6.00 subordinated cumulative convertible preference stock, Series B at $2.40 stated value per share. The redemption value is $105 and the liquidation value is $100 per share. Each share is convertible into 2.4 common shares. Authorized 161,981 shares; issued 1971—132,889 shares, 1970—133,569 shares	319,000	321,000
$6.00 subordinated cumulative convertible preference stock, Series C at $2.20 stated value per share. The redemption value is $105 and the liquidation value is $100 per share. Each share is convertible into 2.2 common shares. Authorized 269,291 shares; issued 1971—167,584 shares, 1970—169,725 shares	369,000	373,000
$2.30 subordinated serial preferred stock, Series 1 at $0.83 stated value per share. The redemption value is $42 and the liquidation value is $40 per share. Each share is convertible into .8333 common shares. Authorized 131,826 shares; outstanding 1971—89,824 shares, 1970—96,660 shares	75,000	81,000
$2.40 subordinated serial preferred stock, Series 2 at stated, liquidating and redemption value of $40 per share. Authorized 395,626 shares; outstanding 1971—275,884 shares, 1970—275,709 shares	11,035,000	11,028,000
$4.75 subordinated serial preferred stock, Series 3 at $2.11 stated value per share. The redemption value is $105 and the liquidation value is $100 per share. Each share is convertible into 2.10526 common shares. Authorized 105,875 shares, outstanding 85,058 shares	179,000	179,000
$4.75 subordinated serial preferred stock, Series 4 at $1.67 stated value per share. The redemption value is $104 and the liquidation value is $100 per share. Each share is convertible into 1.6667 common shares. Authorized 103,000 shares, outstanding 1971—59,881 shares, 1970—61,000 shares, 42,000 shares are reserved contingent upon earnings of an acquired company	100,000	102,000
$4.75 subordinated serial preferred stock, Series 5 at $1.61 stated value per share. The redemption and liquidation value is $100 per share Each share is convertible into 1.6129 common shares. Authorized 122,500 shares, outstanding 1971—122,287 shares, 1970—122,500 shares	197,000	198,000
Subordinated cumulative preferred stock, at stated value of $1 per share. The redemption and liquidation value is $36.85 per share. Authorized 5,000,000 shares; outstanding 105 shares; 1,250,021 shares are reserved for conversion of employees' preferred stock	–	–
Employees' subordinated convertible preferred stock at stated value of $1 per share. The liquidation value is $36.85 per share. Each		

share is convertible into 1.0 common or subordinated cumulative preferred shares. Authorized 5,000,000 shares; issued 1971—1,402,588 shares, 1970—1,380,536 shares; 523,548 shares are reserved under employee incentive plans	1,403,000	1,380,000
Total preferred (aggregate liquidating value 1971—$119,747,000, 1970—$122,573,000)	16,086,000	17,670,000
Common stock at par value of $1 per share. Authorized 20,000,000 shares, issued 1971—12,180,101 shares, 1970—11,963,382 shares; 2,953,343 shares are reserved for conversion of senior securities (including nonconsolidated foreign finance subsidiary), 379,199 shares for employee stock options and 759,968 shares contingent upon earnings of certain acquired companies	12,180,000	11,963,000
Additional paid-in capital	133,202,000	128,001,000
Earnings retained in business	166,360,000	173,144,000
	327,828,000	330,778,000
Less treasury stock	24,572,000	20,573,000
Total stockholders' equity	$303,256,000	$310,205,000

The aggregate liquidating values shown above are net of preferred shares held in the treasury and exceed the aggregate stated values by $8.94 and $9.20 per common share outstanding at 31 July 1971 and 1970, respectively.

At 31 July 1971 and 1970 treasury stock consisted of the following:

Shares carried at cost	1971	1970
Common stock	489,774	444,418
Series B preference stock	440	440
Series C preference stock	1,420	1,420
Employees' preferred stock	152,567	76,777
Shares carried at the exchange value of $1 per share:		
Common stock	83,559	101,550

Retirement Plans: Contributions to the company's retirement fund are made as the company may determine, although it is not under obligation to make contributions. The current annual expense of the company's pension plans, based upon computations by independent actuaries, was approximately $230,000 in 1971 and $758,000 in 1970. The company funds pension cost accrued. The company also made contributions to profit sharing and other employee contractual welfare plans in the amount of approximately $6,800,000 in 1971 and $7,000,000 in 1970.

Employee Stock Plans: Each year the company offers to all eligible employees, under the savings fund-employee stock purchase plan, options to purchase shares of its common stock at 85% of the market value two years subsequent to date of grant.

Transactions under the savings fund-employee stock purchase plan during the year and shares reserved for possible future options are summarized below:

	1971	1970
Options outstanding beginning of year	144,757	291,928
Options granted	325,000	258,433
Options exercised	(90,479)	(266,969)
Options terminated	(21,832)	(138,635)
Options outstanding end of year	357,446	144,757
Shares reserved for possible future options	21,753	196,921
Total shares reserved	379,199	341,678
Option price range	$17.09-$34.80	$17.09-$35.81

In addition, the company has other plans whereby employees, under certain conditions, may purchase stock on the installment basis at the prevailing market price. Under these plans 523,548 shares of employees' subordinated convertible preferred stock were available for employee purchases at 31 July 1971. There are approximately 14,000 employees participating in all the plans described above.

Earnings per common share data: Factors affecting the calculation of earnings per common and common equivalent share are as follows:

	1971		1970	
	Before Extraordinary Loss	Net Earnings	Before Extraordinary Loss	Net Earnings
Earnings per actual common share outstanding	$1.93	$1.07	$1.93	$1.72
Reductions caused by common equivalent shares outstanding	(.10)	(.05)	(.07)	(.06)
Primary earnings per common and common equivalent share	1.83	1.02	1.86	1.66
Conversion of senior securities	(.01)	–	(.01)	(.01)
Conversion of employees' subordinated preferred stock	(.09)	(.02)	(.11)	(.09)
Conversion of debt of nonconsolidated foreign finance subsidiary	(.01)	–	(.02)	(.01)
Fully diluted earnings per common share	$1.72	$1.00	$1.72	$1.55

In the computation of fully diluted earnings per common share, earnings have been appropriately adjusted by eliminating interest or compensation, net of taxes, and dividends.

Extraordinary Loss: The extraordinary loss consists of actual losses incurred, plus additional losses estimated to be incurred, in disposing of plant and equipment, inventories, receivables and related assets of several shoe manufacturing plants, a number of apparel manufacturing plants and lines of business and a large retail store. Sales and losses of these operations incurred prior to date of decision to discontinue, included in earnings before extraordinary loss, were as follows:

		1970 Operations Discontinued		
	1971	in 1970	in 1971	Total
Sales	$17,887,000	$7,866,000	$16,204,000	$24,070,000
Net loss	(1,222,000)	(2,407,000)	(2,698,000)	(5,105,000)
Net loss per common and common equivalent share	(.10)	(.21)	(.22)	(.43)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Total volume of business	**$1,415,369**	1,368,188	1,346,185	1,239,260	1,193,594	831,309	760,321	634,923	444,775	443,254
Net sales	**$1,306,844**	1,278,134	1,263,820	1,154,880	1,106,668	759,619	705,210	589,211	400,538	399,018
Earnings before income taxes and extraordinary loss	**$46,943**	45,899	60,646	65,613	57,304	40,085	32,653	23,440	14,240	16,390
Income taxes	**$21,020**	20,332	28,722	29,123	23,880	17,165	13,310	9,914	6,130	7,389
Earnings before extraordinary loss	**$25,708**	25,298								
Net earnings	**$15,859**	22,930	31,804	36,230	33,122	22,434	18,918	13,222	8,056	8,879
Depreciation and amortization (including lasts, dies and patterns)	**$12,634**	12,080	11,678	10,600	10,081	7,814	5,973	5,699	5,666	5,260
Number of stockholders	**49,000**	48,000	44,000	42,000	38,000	30,000	29,000	28,000	24,000	18,000
Average shares of common stock outstanding	**11,520,000**	11,250,000	10,827,000	10,652,000	10,975,000	7,651,000	7,271,000	6,471,000	5,909,000	5,758,000
Primary earnings per common share:										
Before extraordinary loss	**$1.83**	1.86								
Net	**$1.02**	1.66	2.50	2.92	2.54	2.81	2.43	1.78	1.18	1.41
Total taxes per common share	**$3.61**	4.05	5.29	5.09	4.30	4.39	3.97	3.60	2.45	2.63
Dividends per common share	**$1.70**	1.65	1.60	1.50	1.40	1.20	1.13	1.07	1.07	1.07
Cash flow per common share	**$2.15**	2.61	3.71	4.05	3.71	3.42	3.08	4.21	2.26	2.32
Year's price range per common share	**$39¼-20**	32½-20¼	58¼-29⅛	47¼-29	32⅛-23	41¼-28⅜	36-26½	27¼-22⅝	25½-22⅜	28¼-22⅜
Long-term debt	**$123,944**	112,864	119,686	113,072	94,284	62,386	69,274	70,512	46,986	54,572
Working capital	**$309,350**	324,118	341,857	325,558	280,094	203,731	200,203	185,793	138,320	127,892
Stockholders' equity	**$303,256**	310,205	308,021	282,284	257,994	170,178	146,403	131,391	120,006	105,778

Record of Growth

1962-1971

Figures for 1967-1970 have been restated for poolings of interests and to reflect an accounting principles change. Prior years are as originally reported. All figures have been adjusted for the three-for-two stock split of 22 August 1966.

All dollar figures are in thousands except amounts per share.

GENESCO The Apparel Company
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